

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH KENTUCKY RURAL	)	
ELECTRIC COOPERATIVE CORPORATION	)	CASE NO.
FOR APPROVAL TO PURCHASE THE FIXED	)	2007-00374
ASSETS OF THE MONTICELLO ELECTRIC	)	
PLANT BOARD, MONTICELLO, KY	)	

FIRST DATA REQUEST OF COMMISSION STAFF TO  
SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

South Kentucky Rural Electric Cooperative Corporation (“South Kentucky”) is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and 6 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before September 21, 2007. Each copy of the data requested should be placed in a bound volume with each item tabbed. Responses to requests for information shall be appropriately indexed, for example, Item 1(a), Sheet 2 of 6, and shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be under oath or, for representatives of a public or private corporation, a partnership, an association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

South Kentucky shall make timely amendment to any prior response if it obtains information upon the basis of which it knows that the response was incorrect when

made or, though correct when made, is now incorrect in any material respect. For any request to which South Kentucky fails to furnish all or part of the requested information, South Kentucky shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be provided for total company operations and jurisdictional operations, separately.

1. Provide the following information concerning the customers of the Monticello Electric Plant Board ("MEPB"):

a. The total number of customers and a breakdown of the total by customer class as of July 31, 2007.

b. The most currently available load factor, load duration curves, customer density per mile of distribution line, and other operating and system characteristics of MEPB.

c. The total sales to customers and sales by customer class for the 12 months ending July 31, 2007 and for calendar years 2004, 2005, and 2006.

2. Provide the following information concerning the customers of South Kentucky:

a. The total number of customers and a breakdown of the total by customer class as of July 31, 2007.

b. The most currently available load factor, load duration curves, customer density per mile of distribution line, and other operating and system characteristics of South Kentucky.

c. The total sales to customers and sales by customer class for the 12 months ending July 31, 2007 and for calendar years 2004, 2005, and 2006.

3. If the proposed acquisition takes place, provide the anticipated load factor and customer density per mile of distribution line of the combined MEPB and South Kentucky system. Include all workpapers and assumptions used to determine these estimates.

4. Provide the following information concerning customer rates:

a. Provide the current rates being charged to MEPB customers.

b. Provide a schedule matching the current MEPB rate schedules with the corresponding tariff rates for South Kentucky.

5. Provide copies of any resolutions approved by the South Kentucky Board of Directors related to the proposed transaction.

6. Concerning the notice of the proposed transaction to the customers of MEPB:

a. To date, describe how the customers of MEPB have been notified of the proposed transaction.

b. Have any public meetings, discussion groups, or forums been held to present and explain the proposed transaction?

(1) If yes, provide the dates of each meeting and, if available, the attendance at each meeting and summaries of any comments made at each meeting.

(2) If no, explain in detail why such meetings have not been held.

(3) Are any public meetings, discussion groups, or forums planned to be held prior to the November 6, 2007 election? Explain the response.

7. Explain in detail why South Kentucky is seeking Commission approval of the transaction prior to the November 6, 2007 vote.

8. Concerning the membership of South Kentucky:

a. Has the membership of South Kentucky been informed of the proposed transaction? Explain the response.

b. Was the proposed transaction discussed at South Kentucky's 2007 annual meeting? Explain the response.

c. Has the acquisition of the MEPB assets been submitted to a vote of the membership of South Kentucky?

(1) If yes, provide the results of that vote and indicate how and when the vote was taken.

(2) If no, explain why the proposed transaction did not have to be approved by the membership of South Kentucky.

9. Refer to the Application, page 3. Concerning the purchase of the Monticello distribution substation by East Kentucky Power Cooperative, Inc. ("EKPC")

from South Kentucky, has a formal purchase contract or agreement been negotiated between EKPC and South Kentucky for the purchase of this substation?

- a. If yes, provide copies of the purchase contract or agreement.
- b. If no, indicate when South Kentucky expects the contract will be prepared or explain in detail why a purchase agreement would not be required.

10. Refer to the Application, page 4, where it is stated that EKPC will purchase either from South Kentucky or the Tennessee Valley Authority (“TVA”) a 69 kV transmission line at the same price it would cost South Kentucky if the line were purchased from TVA.

- a. State whether South Kentucky or EKPC has contacted TVA regarding the possibility of either party purchasing this 69 kV transmission line and whether TVA is agreeable to selling the line.

- (1) If TVA is willing to sell the line, provide the selling price.

- (2) If TVA has not been contacted, explain why South Kentucky believes TVA would be willing to sell the line.

- b. Explain how the proposed transfer of assets from MEPB to South Kentucky would be affected if South Kentucky or EKPC were unable to purchase the TVA transmission line.

11. Refer to the Application, page 6.

- a. Provide the expected cost of operation for the distribution facilities to be constructed to interconnect the MEPB and South Kentucky systems.

- b. Explain in detail why South Kentucky is not seeking Commission approval of the financing for the proposed transaction, pursuant to KRS 278.300.

12. Refer to the Application, Exhibit A, page 1 of 2. The first reason given for South Kentucky purchasing the assets states that, due to the aging of the electric plant and MEPB not desiring to incur the substantial debt necessary to efficiently provide service to its customers, the sale of the fixed assets was in the customers' best interests.

a. Explain why MEPB would incur substantial debt to efficiently provide service if it did not transfer its assets.

b. Does South Kentucky anticipate incurring additional debt to efficiently provide service to the former MEPB customers? Explain the response in detail.

13. Refer to the Application, Exhibit E.

a. The second paragraph indicates that from the period when South Kentucky acquires ownership of the MEPB fixed assets until November 2008, all reporting, administrative, and accounting functions would be maintained as if MEPB still existed under separate ownership so as to comply with the TVA contract. If the closing occurs prior to December 31, 2007, does South Kentucky plan to reflect the asset transfer in the financial statements included in the 2007 annual report filed with the Commission? Explain the response.

b. The third paragraph states that the MEPB customers will not come under the full control of South Kentucky with full rights of membership until after November 2008.

(1) Define what is meant by "full rights of membership."

(2) Since the funding of the memberships in South Kentucky has been incorporated into the transaction and South Kentucky would be providing service once the transaction closes, explain in detail why the MEPB customers will not have full rights of membership until after November 2008.

c. Concerning the rates South Kentucky will be charging to the MEPB customers between the time the transaction closes and November 2008, explain in detail how South Kentucky proposes to handle these events within its existing tariffs. Include in this response whether South Kentucky believes it will be necessary to file a rate case to change the rates in November 2008.

14. Refer to the Application, Exhibit G, page 3 of 4.

a. Explain how debt issued in September and December 2007 (Notes IA362 and IA363) could have a current balance reported as of May 31, 2007.

b. Explain how it is possible to have interest paid in 2006 for debt issued in 2007 (Notes IA361 and IA362).

15. Refer to the Application, Exhibit I.

a. Provide the statement of operations for the 12 months ending July 31, 2007 and the balance sheet as of July 31, 2007.

b. Provide the effect the transaction would have on South Kentucky's financial statements for the first 2 years following the approval of the transfer. Include all workpapers and assumptions used to prepare the financial statements.

16. Refer to the Application, Exhibits K, L, and M. Exhibit K shows the total amount to be financed is \$4,400,000. In Exhibit L, it is stated that the proceeds from the sale of the distribution substation to EKPC, less the cost of interconnection facilities

anticipated to be \$1,149,000, will be used to offset the initial purchase price paid to MEPB. Exhibit M states the net cost of the purchase of the MEPB fixed assets to be \$4,686,000 less the \$1,200,000 gross proceeds from the distribution substation sale, or \$3,486,000.

a. Explain why the net amount from the sale of the distribution substation was not reflected in the determination of the amount to be financed shown on Exhibit K.

b. Explain why the net cost for the assets shown on Exhibit M includes the \$86,000 in memberships that are to be reimbursed by the city of Monticello, as stated in Exhibit K.

c. Based on the information provided in Exhibits K, L, and M, recalculate the amount to be financed and the estimated net cost of the purchase.

17. Refer to the Application, Exhibit M, page 1 of 2. Provide the current status of each contract listed.

18. Refer to the Application, Exhibit R, the Purchase and Sales Agreement ("Purchase Agreement").

a. Page 2, paragraph 2, of the Purchase Agreement states that the city of Monticello will pay South Kentucky the \$25 membership fee per number of customers served at the date of the sale. Exhibit K of the Application shows the total amount to be \$86,000. Provide the calculation of the \$86,000 and indicate whether this total is subject to change.

b. Page 3, paragraph 5, of the Purchase Agreement describes the mortgage for the purchase of the MEPB fixed assets. Does this financing arrangement

require the approval or consent of either the Rural Utilities Service (“RUS”) or South Kentucky’s supplement lender? Explain the response.

c. Page 6, paragraph 12, of the Purchase Agreement states South Kentucky intends to offer all employees of MEPB a position with the cooperative with wages at or above the same wages and benefits for similar jobs. Explain why any employees hired by South Kentucky from MEPB would be receiving higher wages or benefits for similar jobs.

d. Page 7, paragraph 14, of the Purchase Agreement describes the situation if the transaction cannot be consummated and closed. It provides that South Kentucky would provide wholesale electricity to MEPB and its customer base for a period of no less than 2 years from November 2008 and at a wholesale rate equal to the wholesale rate charged to South Kentucky.

(1) Explain in detail how South Kentucky, a distribution cooperative, can make wholesale electricity sales. Include citations to applicable statutes and South Kentucky’s Articles of Incorporation and Bylaws.

(2) Explain in detail why a wholesale electricity transaction was not arranged with EKPC.

e. Page 8, paragraph 17 of the Purchase Agreement provides that the MEPB board members will serve as an advisory board to South Kentucky and the current superintendent of MEPB would be retained by South Kentucky in an advisory capacity for a minimum period of 2 years with compensation equal to current levels.

(1) Provide the total annual compensation currently paid to the MEPB board.

(2) Provide the total annual compensation currently paid to the superintendent.

(3) Describe in detail the nature and duties of the advisory functions to be provided by the MEPB board and its superintendent.

(4) Explain in detail why it is necessary for either the MEPB board or its superintendent to be retained in an advisory capacity.

(5) Explain why this arrangement is for a minimum of 2 years rather than limited to no more than 2 years.

f. Pages 8 and 9, paragraph 18, of the Purchase Agreement state that the MEPB customer deposit liability would transfer to South Kentucky. Provide the amount of this liability as of July 31, 2007, showing any accrued interest on the deposits separately.

g. Page 9, paragraph 19, of the Purchase Agreement discusses South Kentucky's commitment to community involvement in the Monticello area. Would this community involvement include the provision of services other than the sale of electricity to the city of Monticello at reduced costs or for free? Explain the response in detail.

19. Refer to the Purchase Agreement, Exhibit A. Provide a detailed plant schedule as of July 31, 2007, listing the plant by type of plant and including the following information for the MEPB assets to be purchased:

- a. The original cost of the plant.
- b. The accumulated depreciation for the plant.
- c. The date the plant was placed into service.

- d. The depreciation method utilized.
- e. The useful life and remaining life for the plant.

20. Refer to the Application, Exhibit S. Provide signed copies of the ordinance adopted by the City Council of the city of Monticello.

21. Refer to the Application, Exhibit T. Provide copies of any other correspondence to or from the RUS related to the proposed transaction.

22. Provide the following accounting entries for the books of South Kentucky. The entries should conform to the requirements of the RUS Uniform System of Accounts.

- a. The entries to be made to record the purchase of the MEPB fixed assets. Include all entries associated with the 30-year note and the payment of the memberships.

- b. The entries to be made to record the purchase and subsequent sale of the Monticello substation.

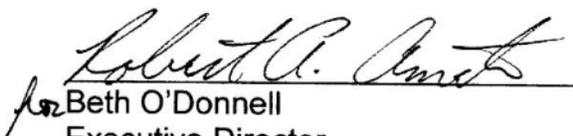
- c. The entries to be made to record the purchase and subsequent sale of the TVA 69 kV transmission line.

- d. Any other entries required to reflect the proposed transaction.

23. Indicate when South Kentucky plans to seek a change in its service territory to reflect the proposed transaction.

DATED: September 14, 2007

cc: Parties of Record

  
for Beth O'Donnell  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, Kentucky 40602